

**The Internal Revenue Service Worked Quickly
to Assist Business Taxpayers Needing
Disaster Relief After September 11, 2001**

August 2002

Reference Number: 2002-30-139

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 15, 2002

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Pamela J. Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Worked
Quickly to Assist Business Taxpayers Needing Disaster Relief
After September 11, 2001 (Audit # 200230015)

The report presents the results of our review of business taxpayers needing disaster relief after September 11, 2001. The overall objective of this review was to determine if the Internal Revenue Service (IRS) properly assisted business taxpayers seeking disaster relief as a result of the terrorist attacks of September 11, 2001.

In summary, shortly after the terrorist attacks of September 11, 2001, the President declared disaster areas in parts of New York City. There were approximately 785,000 business taxpayers located within the Presidentially-declared disaster areas, plus additional business taxpayers outside these areas that were affected by the terrorist attacks. Following the attacks, the IRS worked quickly to assist business taxpayers by providing as much administrative tax relief as possible and minimizing the burden of tax issues during the aftermath.

The IRS created multiple ways for business taxpayers affected by the terrorist attacks to easily get tax-related answers and assistance. The IRS accomplished this through the Internet, telephone hotlines, a radio broadcast, personal presentations with tax practitioners, notices, news releases, announcements, and publications.

The IRS also worked diligently to ensure that business taxpayers were aware of special tax considerations available to help them, e.g., extensions of filing deadlines, relief from certain penalties, and early refunds of estimated tax payments. The IRS advised affected taxpayers to write, "September 11, 2001 – Terrorist Attacks" in red ink at the top of returns or other documents filed with the IRS.

In addition, the IRS provided special handling for the accounts of the victims of the terrorist attacks. Killed in Terrorist Action (KITA) Coordinators were available

nationwide to expedite the processing of any returns, claims, or correspondence and to answer questions related to any tax issues surrounding these accounts. We have previously reported on the IRS' efforts to prepare for the processing of KITA returns¹ and to provide tax relief to affected individual taxpayers following the terrorist attacks.²

Since we did not make any recommendations in this report, a response was not required. Copies of this report are also being sent to the IRS managers affected by the report. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

¹ *Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary* (Reference Number 2002-10-110, dated August 2002).

² *The Internal Revenue Service Responded to the Needs of Surviving Individual Taxpayers Following the September 11, 2001, Terrorist Attacks* (Reference Number 2002-10-140, dated August 2002).

**The Internal Revenue Service Worked Quickly to Assist Business Taxpayers
Needing Disaster Relief After September 11, 2001**

Table of Contents

| | |
|---|--------|
| Background | Page 1 |
| Many Actions Were Taken to Educate and Assist Business Taxpayers Affected by the September 11, 2001, Terrorist Attacks | Page 2 |
| Appendix I – Detailed Objective, Scope, and Methodology..... | Page 6 |
| Appendix II – Major Contributors to This Report | Page 7 |
| Appendix III – Report Distribution List..... | Page 8 |

The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001

Background

Shortly after the terrorist attacks of September 11, 2001, the President declared disaster areas in parts of New York City. There were approximately 785,000 business taxpayers located within these Presidentially-declared disaster areas, plus additional business taxpayers outside these areas that were affected by the terrorist attacks. This meant that Special Tax Considerations were granted to business taxpayers affected by the disaster, e.g., extensions of filing deadlines, relief from certain penalties, and early refunds of estimated tax payments.

The “Job Creation and Worker Assistance Act of 2002”¹ was enacted on March 8, 2002. This legislation provided additional tax relief in the form of increased credits and accelerated depreciation allowances for businesses. Under the terms of this legislation, the area of New York City south of Canal Street was designated as the “New York Liberty Zone,” with additional credits and tax relief provided for the businesses located within those boundaries. This may result in the filing of additional Amended U.S. Corporation Income Tax Returns (Form 1120X) after the conclusion of this audit. The Treasury Inspector General for Tax Administration plans a subsequent audit of the processing of Forms 1120X.

We performed this audit at the Internal Revenue Service (IRS) Brookhaven, Cincinnati, and Ogden Submission Processing Centers and contacted IRS officials from the Small Business/Self-Employed (SB/SE), Large and Mid-Size Business (LMSB) and Wage and Investment (W&I) Divisions’ Headquarters staffs. The audit was conducted from November 2001 through April 2002 in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ Public Law No. 107-147.

The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001

Many Actions Were Taken to Educate and Assist Business Taxpayers Affected by the September 11, 2001, Terrorist Attacks

Many actions were taken to educate and assist business taxpayers affected by the September 11, 2001, terrorist attacks. The IRS reminded individual and business taxpayers who had suffered property losses that they could get quick tax refunds by claiming these losses on amended returns they filed for Tax Year (TY) 2000, rather than waiting until they filed their TY 2001 returns. Although the IRS had extensive communications with taxpayers and practitioners, as of the time of our review few business taxpayers had chosen to file amended returns for TY 2000 to claim relief for property losses suffered as a result of the terrorist attacks. The IRS advised affected taxpayers to write, "September 11, 2001 – Terrorist Attacks" in red ink at the top of returns or other documents filed with the IRS.

The IRS created multiple ways for taxpayers affected by the terrorist attacks to easily get tax-related answers and assistance

The IRS used the following methods to communicate information to business taxpayers affected by the terrorist attacks:

- Created a special web site (<http://www.irs.gov/relief/index.html>) devoted to informing taxpayers of the latest terrorist attack disaster assistance offered by the IRS. The web site was updated frequently for individuals and businesses and was user-friendly with a search engine to answer specific taxpayer inquiries. The site has a content, resource, and topics index; filing tips; scam updates; and disaster relief question and answer section.
- Established special toll-free telephone numbers (hotlines) for taxpayers whose ability to meet their federal tax obligations was affected by the terrorist attacks. This assistance was provided in English, in Spanish, and for the hearing-impaired. The toll-free telephone numbers were listed in the publications and notices and on the web site.

The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001

- Participated in a special broadcast of tax relief initiatives sponsored by Tax Talk Today,² an educational radio program for tax professionals. The broadcast was used as an educational tool to discuss tax relief initiatives put into effect after the September 11, 2001, attacks.
- Presented information to the members of the New York State Society of Certified Public Accountants regarding extensions, postponement of certain penalties, and other tax relief being administratively granted by the IRS.
- Activated an electronic mailbox to provide assistance and answers to business taxpayers affected by the attacks (corp.disaster.relief@irs.gov).
- Provided the assistance of its Taxpayer Advocate staff at Federal Emergency Management Agency disaster sites to ensure that taxpayers affected by the disaster were given information concerning their rights as residents of a Presidentially-declared disaster area. The Taxpayer Advocate staff provided community outreach to taxpayers for relief benefits such as refunds, loan eligibility, and expeditious processing of claims.

The IRS issued notices, news releases, announcements, and publications providing details and clarification of disaster relief for individual and business taxpayers

The IRS issued numerous instructions covering expanded tax relief for businesses affected by the terrorist attacks:

- Nine notices to clarify tax relief. These notices were issued in the aftermath of the terrorist attacks to provide businesses and tax practitioners with clarification of tax guidance and to resolve questions involving taxpayers' potential administrative issues.

² Tax Talk Today is a monthly radio broadcast produced jointly by the IRS and the National Society of Accountants.

The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001

- Twelve news releases. These news releases were issued for businesses and tax practitioners affected by the attacks to inform them how to easily get tax-related answers and assistance.
- Five announcements to further explain tax administrative issues. The IRS issued these announcements for businesses and tax practitioners affected by the terrorist attacks to clarify the extensions to file, the limited relief of certain penalties, re-designation of estimated income tax payments, and postponements of original filing or payment deadlines.
- Publications to educate businesses and to provide concise details of tax relief. Immediately following the September 11, 2001, terrorist attacks, the IRS issued a publication that included the following statement from IRS Commissioner Charles O. Rossotti, “Because of the breadth and scope of the tragic events of September 11, taxpayers face many questions. We don’t want lingering tax questions to burden anyone during this challenging time.” *Help from the Internal Revenue Service for Those Affected by the Terrorist Attacks on America* (Publication 3921) listed telephone numbers and web sites for special IRS assistance and gave specifics for tax relief, i.e., postponements of tax deadlines, extensions to file, what taxpayers should do if they had difficulty meeting federal tax obligations or needed assistance regarding property damage or loss.

In February 2002, a new IRS publication was issued. “Our new publication gives affected taxpayers the details they need to claim the tax relief the law provides. If they have further questions we’ll be here to help them.” (IRS Commissioner Charles O. Rossotti) *Tax Relief for Victims of Terrorist Attacks* (Publication 3920) dealt with tax forgiveness, payments to survivors, postponed tax deadlines, disaster area losses, estate tax reduction, and structured settlement factoring transactions. It provided explicit instructions, worksheets, and details of how to get help from

The Internal Revenue Service Worked Quickly to Assist Business Taxpayers Needing Disaster Relief After September 11, 2001

the IRS. We have previously reported³ on the IRS' efforts to provide tax relief to affected individual taxpayers following the September 11, 2001, terrorist attacks.

In addition, the IRS provided special handling for the accounts of the victims of the terrorist attacks. Killed In Terrorist Action (KITA) Coordinators were available nationwide to expedite the processing of any returns, claims, or correspondence and to answer questions related to any tax issues surrounding these accounts. We have also reported⁴ on the IRS' efforts to prepare for the processing of KITA returns.

During our review, with the aid of computer extracts, we did identify a few Forms 1120X marked with the statement "September 11, 2001-Terrorist Attacks," but most of the issues were unrelated to the disaster. We did not identify any large volume of disaster-related claims filed on Forms 1120X from September 17, 2001 to February 18, 2002.

It is evident that in the aftermath of the terrorist attacks of September 11, 2001, the IRS worked aggressively to aid businesses hurt by the tragedy.

³ *The Internal Revenue Service Responded to the Needs of Surviving Individual Taxpayers Following the September 11, 2001, Terrorist Attacks* (Reference Number 2002-10-140, dated August 2002).

⁴ *Management Advisory Report: Actions Have Been Taken to prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary* (Reference Number 2002-10-110, dated August 2002).

**The Internal Revenue Service Worked Quickly to Assist Business Taxpayers
Needing Disaster Relief After September 11, 2001**

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the Internal Revenue Service (IRS) properly assisted business taxpayers seeking disaster relief as a result of the terrorist attacks of September 11, 2001. To accomplish our objective, we:

- I. Determined if business taxpayers that met disaster criteria filed Amended U.S. Corporation Income Tax Returns (Form 1120X) to claim refunds for property losses and whether the claims were properly routed within the IRS.
 - A. Reviewed Internal Revenue Manual (IRM) 121.6, *Natural Disaster and Emergency Relief*, and IRM 3, *Administrative Reference Guide for Disaster/Emergency Procedures*.
 - B. Interviewed Submission Processing, Examination, and Adjustment function management analysts, managers, tax examiners, and the local Taxpayer Advocate at the Brookhaven Submission Processing Center (SPC), as well as the national Taxpayer Advocate Liaison for Governmental Affairs, to determine if there were any problems or concerns with amended business returns filed for disaster relief and if there was a significant volume.
 - C. Reviewed the IRS' web sites, publications, press releases, tax forms, radio broadcasts, public announcements, presentations to practitioners, toll-free service, notices, and instructions regarding disaster relief to determine if business taxpayers were properly assisted.
 - D. Interviewed national and local Disaster Relief and Killed In Terrorist Action Coordinators to identify any problems or concerns.
- II. Obtained computer extracts and business returns to determine the volumes of disaster related claims and to identify potential problems.
 - A. Analyzed the data from computer extracts for the period September 17, 2001 to February 18, 2002, provided by the Treasury Inspector General for Tax Administration Information Technology specialists to identify all disaster claims and any potential problems.
 - B. Reviewed all of the Forms 1120X processed at the Brookhaven SPC from September 2001 through February 2002 marked as "September 11, 2001 – Terrorist Attacks" to determine if they were related to the disaster and were handled appropriately.

**The Internal Revenue Service Worked Quickly to Assist Business Taxpayers
Needing Disaster Relief After September 11, 2001**

Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Robert K. Irish, Audit Manager

Margaret F. Filippelli, Acting Senior Auditor

Paul R. Baker, Auditor

Dolores Castoro, Auditor

James Adkisson, Computer Specialist

**The Internal Revenue Service Worked Quickly to Assist Business Taxpayers
Needing Disaster Relief After September 11, 2001**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Deputy Commissioner, Small Business/Self-Employed Division S
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Deputy Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management and Controls N:CFO:F:M
Audit Liaison:
 Commissioner, Small Business/Self-Employed Division S